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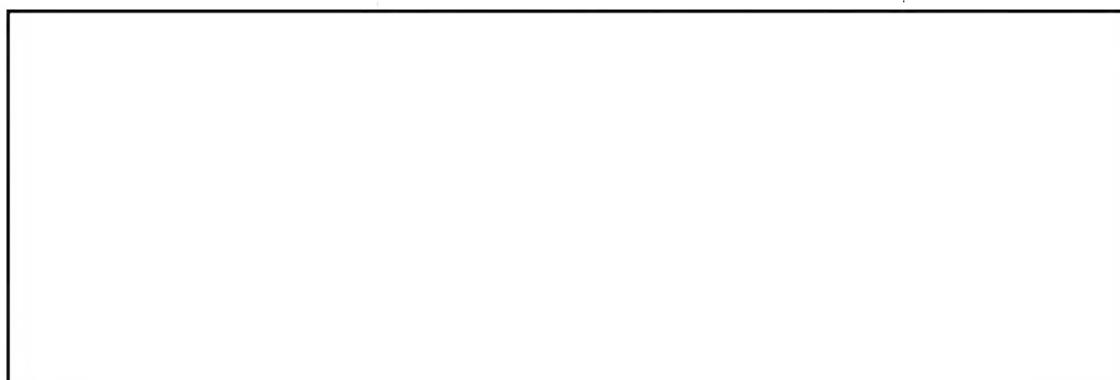
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State Department review completed

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3. Communists buying American dollars in Hong Kong:

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Chinese Communist agents have been buying American currency at the rate of \$2,000,000 weekly for the past several weeks, [redacted] The dollars thus acquired are apparently used to finance Chinese imports.

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The American Consul General in Hong Kong points out that Communists prefer to acquire their dollar exchange in currency form, since other dollar holdings could be more readily frozen by American authorities.

SOUTHEAST ASIA

4. French official urges reassessment of Indochina problem:

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A high French Foreign Ministry official believes that the American, British, and French Governments should now restudy Indochina's military and political value

in preventing Communist domination of Southeast Asia. He bases the need for such a reassessment on the current "particularly acute public and parliamentary heart-searching" in France on the Indochina problem and on the prospect that crucial decisions will face these governments at the next tripartite meeting in the spring on Southeast Asia.

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According to the American Embassy in Paris, this official suggested that consideration be given not only to ways of assisting the French effort but also to the possibilities of a new defense line either in southern Indochina or on the offshore islands. The Embassy believes the suggestion was motivated by sincere conviction.

Comment: This is the first French approach for a tripartite study of specific alternatives to the present French defense effort in Southeast Asia, as distinct from previous emphasis on obtaining more American military aid.

NEAR EAST - AFRICA

5. Israelis reported pessimistic over prospects for peace with Arabs:

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There is "some evidence of discouragement" among the Israelis over the prospects of an Arab-Israeli peace in the near future, according to Ambassador Davis in Tel Aviv. He

reports that Arab opposition to the German restitution agreement and hostility toward the latest UN proposals for direct peace talks, and a fear in Israel that the West may arm the Arab states prematurely are the chief reasons for Israeli uneasiness.

Comment: Continuing Israeli peace efforts--including recent direct approaches in Paris and Washington to Egyptian diplomats and discussions with US officials--make it appear doubtful that Israel is basically discouraged about achieving an ultimate settlement.

6. Egyptian Ambassador to London reportedly to become foreign minister:

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The Egyptian army inner circle has decided to appoint Mahmoud Fawzi, present Egyptian Ambassador to London, as foreign minister, according to Colonel Abdul Moneim Amin, a member of the Nagib regime.

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Comment: Mahmoud Fawzi, formerly Egyptian representative to the United Nations, is respected by the army group and is considered to be moderate and pro-West in his views.

Previous reports have indicated that the military are not satisfied with Foreign Minister Farrag and that his dismissal is imminent.

EASTERN EUROPE

7. Hungarian officials fear anti-Zionist purge:

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Several top-level Hungarian Foreign Ministry officials fear an anti-Zionist purge, according to [redacted] Three top officials in the Foreign Ministry, as well as the Minister to the United States, are of Jewish background. In a conversation with [redacted] one of these officials appeared "extremely worried" and made it clear that he regretted he could not emigrate to Israel.

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Comment: The Hungarian Communist regime contains a high proportion of Jews, including Premier Rakosi, Deputy Premiers Gero and Hidas, and Defense Minister Farkas. Gero has frequently been mentioned as a likely target because of the failures of the Hungarian Five-Year Plan with which he has been closely concerned.

Detailed coverage of the Prague trial in the Hungarian press emphasized its anti-Zionist aspects and noted that certain of the accused had confessed to activities in Hungary.

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WESTERN EUROPE

8. Social Democrats reportedly favor West German national army within NATO:

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West German Social Democratic leaders, including the chairman of the party, now favor the formation of an independent German national army within the North Atlantic Treaty Organization, and believe that such a proposal would find eventual support in America. [redacted]

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An important Social Democrat, who has just returned from the United States, told American officials in Bonn that "Washington has already written off the European army" because the new administration "knows that such an army would be militarily ineffective.

According to US officials in Bonn, the Social Democrats therefore continue to believe that they can oppose the European Defense Community Treaty without endangering West German security.

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